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The Outlook

THE MORTGAGE CORNER

“Mortgage Default Insurance”

The terms Insured Mortgage and Conventional Mortgage are often brought up when people are applying for a mortgage at a financial institution. What is the difference?

The Bank Act states that a financial institution may not lend more than 80% of the current value of a home on a mortgage loan (was previously 75%). However, many people, especially first-time home buyers, find it very hard to save up a down payment equal to that amount – especially in markets where the home prices are increasing. This is where the insured mortgage or “high-ratio mortgage” comes into play. This refers to the high ratio of money being borrowed, versus the low down payment.

The Canada Mortgage & Housing Corporation (CMHC), a crown corporation, was established in 1946. Their mandates included social and renting housing needs. In 1954 changes were made to the Housing Act and CMHC introduced its Mortgage Loan Insurance Program, which allowed Canadians to finance homes with less than 25% down.

Mortgage Default Insurance is actually loss insurance for the lender, should they end up taking possession of a property due to payment default. The borrower pays the insurance premium in return for the privilege of the lower down payment. It is common now to finance the purchase of a home with only 5% down – whether you are a first-time home buyer or even if you’ve previously owned a home. The insurance premium is usually added to the mortgage loan.

Some mortgage lending institutions may offer special in-house programs that basically allow a client to borrow a full one hundred percent of their purchase amount. There are often conditions attached to this type of loan.

First-time homebuyers may be able to access funds in their RRSP to provide a down payment for a home purchase. Recent government changes now allow a buyer to access up to \$25,000 from their RRSP for a first-time purchase.

CMHC is not the only provider of Mortgage Default Insurance. Other private firms have entered the market over the years, some providing incentives to the borrower to gain their business. Ask your Mortgage Broker to review your Mortgage Insurance options with you.

Midwestern Mortgage